WESTERN DECALTA PETROLEUM LIMITED 1967 ANNUAL REPORT

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ANNUAL MEETING

The next Annual General Meeting of the Shareholders of the Company will be held at the Royal York Hotel, Toronto, Ontario on April 25th, 1968 at 10:00 a.m. A formal notice of the meeting, together with a form of proxy is enclosed with this report.

IN THIS REPORT

All figures and interest shown for "Decalta" or "the Company", unless otherwise stated, represent the consolidated total of Decalta and its subsidiaries for the year 1967.

SUMMARY OF THE YEAR 1967

	1967	1966
FINANCIAL		
Gross income	**$ 4,279,000**	$ 4,156,000
Cash flow	**2,412,000**	2,403,000
Per share	**.35**	.35
Depreciation and depletion	**1,688,000**	1,609,000
Net income for the year	**631,000**	709,000
Per share	**.09**	.10
Working capital	**1,645,000**	365,000
Exploration and development expenditures	**3,014,000**	4,349,000
Long term debt	**9,615,000**	9,723,000
Shareholders' equity	**$11,917,000**	$11,218,000
Shares outstanding	**6,866,683**	6,828,183

	1967	1966
OPERATING		
Oil and condensate production – net barrels	**1,478,000**	1,445,000
Daily average – net barrels	**4,049**	3,959
Natural gas sales – net million cu. ft.	**1,342**	1,242
Daily average – net thousand cu. ft.	**3,677**	3,403
Proven and probable additional reserves		
Oil and condensate – gross barrels	**34,721,000**	34,103,000
Natural gas – gross mcf	**126,800,000**	98,200,000
Sulphur – long tons	**301,000**	305,000
Land holdings		
Gross acres	**14,919,000**	12,479,000
Net acres	**8,731,000**	8,579,000

CHARLES S. LEE
PRESIDENT

TO THE SHAREHOLDERS

EMPHASIS ON FINDING NEW RESERVES

The Muskeg-Keg River Areas

During the past three years, the Company has almost doubled its exploration program. Some $4,183,000 have been spent on exploration in the last three years in comparison with $2,210,000 during the previous three years. Much of the funds have been used for the establishment of an important land position in the prospective areas for the Muskeg-Keg River formation (or its equivalent) in the Northwest Territories, British Columbia, Alberta and Saskatchewan. The Company now holds 9,470,000 gross acres (3,064,000 net acres) in promising geological areas, compared to 1,619,000 gross acres (1,201,000 net acres) in 1964, excluding 5,453,000 net acres in New Brunswick.

While the investment of a large share of the funds was based upon expected returns in a relatively long term rather than in the immediate future, a concentrated effort is being made to evaluate the properties as rapidly as possible. However, with such a large spread, it will still take considerable time to complete our program. Work is being done by direct investment by the Company and by way of farmout to other companies.

The immediate program calls for geophysical work and drilling in all three provinces of Alberta, British Columbia and Saskatchewan, and geophysical work in the Northwest Territories. Between January, 1968 and March, 1969, we expect at least 16 wells to be drilled on these properties. Specifically, the Company has already farmed out 11 prospects in the three provinces, for a total work commitment on these lands amounting to approximately $3,000,000. The Company maintains a significant interest in all properties thus farmed out. In addition, seismic work and drilling done by other companies in the neighborhood of our properties will add considerable exposure to the Company.

Other Areas Receive Attention

Exploration work has been done in the Hudson Bay area, consisting of a well and land seismic work over a wide area. Marine seismic will be conducted this summer. The Company has a 5% interest in the work in this area. In New Brunswick, a major company drilled two wells on the property of New Brunswick Oilfields, Limited (Decalta owns 82%). The wells were not completed as producers but had showings of oil and gas. Following an encouraging pilot flood, the Company will be undertaking an expanded waterflood project in the Stony Creek field in this Province during 1968. Activity off Canada's eastern shores will help evaluate offshore rights New Brunswick Oilfields, Limited holds from the Province of New Brunswick.

Major Acquisitions

In response to the rapidly growing demand for natural gas, Decalta has recently made two substantial investments in gas reserves. The first was in the Ghost Pine field in Central Alberta, where subsequent development drilling improved the volume of reserves purchased. This investment also included participation in a new gas plant which commenced deliveries on November 6, 1967. The second was that negotiations were initiated in November for the purchase of control of Consolidated West Petroleum Limited in February 1968, utilizing the proceeds from the sale of two oil payments and Decalta's share holdings in Freehold Gas & Oil Ltd. Consolidated West Petroleum Limited has some 220,000 acres of offshore leases (most of which are not yet developed) in Lake Erie, Ontario, and gross income of about $800,000 per year from the sale of gas. It is anticipated that Consolidated West will add $525,000 per year to Decalta's cash flow. Control of this company was eventually acquired in February 1968; Decalta now owns 1,234,256 shares or 92.86% of the outstanding shares. The Company's interests in the D-3 oil production at Sturgeon Lake South were also supplemented by the acquisition of proven reserves. A gas plant for this area is now being considered for completion by mid-1969.

Decalta's Operations in 1967

Production – Crude oil production totalled 1,478,000 net barrels, up 2.3% over 1966 while natural gas sales rose 8.0% to 1,342 million cubic feet. (As a result of previously mentioned acquisitions, the gas volumes are expected to increase by 25% during 1968).

Drilling Activity – During 1967, Decalta participated in the drilling of 26 gross (8.6 net) development and exploratory wells compared with 74 (30.7 net) wells last year. Successful oil or gas completions were realized for 89.1% of the development wells and 25% of the exploratory wells. Details of the results of the 1967 drilling program are shown on page 7 of this report.

The Obed area in Alberta again calls for special comment. Decalta completed the well at 2-36-54-23-W5 as a Blairmore gas well, earning 100% in the 640 acre tract. A subsequent well drilled by Pan American, known as PanAm Obed 6-23-55-22-W5, penetrated the Devonian D-3. Tests on the D-3 were unsuccessful but the well was completed as a substantial natural gas well in the Viking. Further development in the area must await the decisions of all the partners in the area.

Financial – Reflecting higher volumes of crude oil and gas sales, gross income in 1967 gained 3.0% to $4,279,000. Cash generated from operations amounted to $2,412,000 (35.1c per share) compared with $2,403,000 (35.2c

per share) in 1966. Total cash expenses were up 6.0% and depreciation and depletion write-offs up 4.9% resulting in a net income of $631,000 (9.2c per share); this compares with $709,000 (10.4c per share) in 1966.

Working capital at the year end was $1,645,000 vs $365,000 in 1966. This improvement resulted from the sale of oil payments representing a portion of the Company's production from certain of the Company's reserves.

Reserves – Crude oil reserves, including condensate, amounted to 34,721,000 gross barrels at January 1, 1968; this is an increase of 618,000 barrels over last year after allowing for production of 1,720,000 gross barrels. The Company's gross reserves of natural gas at January 1, 1968 totalled 126.8 billion cubic feet after allowing for the gross production of 1.6 billion cubic feet. The increase over the same date last year amounts to 28.6 billion cubic feet (29.1%). Sulphur reserves remained more or less unchanged at 301,000 long tons (305,000 long tons at January 1, 1967).

The Company's Position in the Oil Industry

On December 31, 1962, the Company's reserves were 18,956,000 barrels, and the estimated reserves of all Canada were 5,176,000,000 barrels.

On December 31, 1967, the Company's reserves were 34,721,000 barrels, and the estimated reserves for Canada were 9,548,000,000 barrels.

During this period, Decalta increased its reserves by 83%. Industry, as a whole, increased its reserves by 84%. Decalta increased its net oil production by 79%; the country increased its production by 51%. In these comparisons lie the reasons for the activity now taking place in Northern Alberta. By 1969, about 74% of the reserves of Canada (i.e. those in Alberta) will be produced on a market sharing basis (known as "proration to market demand") which will be governed by the amount of reserves that a company owns within Alberta in relation to the reserves of the province.

If the Company is to maintain its cash flow, it has to have a corresponding percentage of the new reserves that are being found in Northern Alberta, or it has to find new reserves outside Alberta where proration, either with respect to oil or gas, is not as onerous. In attempting to maintain a balance in this respect, the Company has, therefore, invested fairly heavily in Northern Alberta, but also in the Northwest Territories, British Columbia, Saskatchewan, and Montana, and more recently in Lake Erie, Ontario, where proration is less restrictive. This is why the Company's growth picture for production is somewhat better than the growth picture for the industry as a whole. Most of the new investment by the Company has yet to be evaluated. Whereas the drilling that was done by the Company in Northern Alberta in 1967 was

disappointing this was only a relatively small initial phase, and the prospects lying ahead for industry and, hopefully, for Western Decalta are regarded by all in the industry as unusually promising. In order to participate in the future of the industry, a good land position has been established by Western Decalta, and exploratory activity will be maintained at a high level.

Since Manitoba and Saskatchewan are producing near capacity, expanded markets will directly increase Alberta's production, both for the industry at large and, more particularly, for the Company. Early in the year, your Company took an active part in the studies and representations that were made to the Federal Government to negotiate additional market outlets in the United States. The work done by all segments of industry and Government has resulted in the approval of a large diameter pipeline to carry Western, and predominantly Alberta, crude through the United States by way of Chicago to Detroit and, thence, to Eastern Canada. Access to Chicago is assured but deliveries of crude oil in large volumes to that area are not yet assured. In the light of these uncertainties and the reduction of deliveries of Canadian crude oil to Puget Sound (Alaskan crude is now entering this area) pressure to retain and expand markets for Canadian crude must be maintained.

The Report of the Royal Commission on Taxation was reviewed in detail, both at the Company and industry level. The misconceptions, lack of information, incorrect data, and outright mistakes in the Report lead to erroneous conclusions concerning our industry. The fullest possible representations have been made at the Provincial and Federal levels of government to acquaint them with the facts of the industry, and our concern relative to the Company as to the Report conclusions.

Directors and Employees

During the year, Mr. Hugh B. Griffith, who has been a director for thirteen years, asked to retire and his resignation was accepted with much regret. His place has been taken by Mr. Maurice Rush of Toronto, Ontario.

The work of many of our staff has taken on a new aspect, as the policy of the Company has shifted to increased exploration, involving additional farm-ins and farm-outs, and now offshore drilling in Lake Erie. All have accepted the new challenges created by an active industry. On behalf of the Board of Directors, I wish to thank them for their adaptability and enthusiasm.

March 7, 1968

President

REVIEW OF OPERATIONS


(1)


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Production

Crude Oil

Production of crude oil in 1967 totalled 1,478,000 net barrels, an increase of 33,000 barrels (2.3%) over 1966. Daily net production averaged 4,049 barrels in 1967 (3,959 in 1966).

The net change in production volumes by provinces and states is shown in the tabulation below:

Province/State	In Thousands of Net Barrels 1967	Change from 1966
Canada:		
Alberta	1,202	+ 70
British Columbia	37	+ 2
New Brunswick	12	+ 11
Saskatchewan	122	+ 43
	1,373	+ 126
U.S.A.:		
Montana	74	− 86
Texas	31	− 7
	1,478	+ 33

Higher volumes were obtained from the Mitsue, Sturgeon Lake South and West Drumheller fields in Alberta; in Saskatchewan, production gains were derived from new wells in the Weyburn and Gull Lake fields.

In Montana production from relatively shallow reservoirs, developed during 1965 and 1966, exhibited the anticipated sharp decline during the year. Pressure maintenance schemes have now been installed in these pools to improve the productivity rate. In Texas, production volumes were lower by 7,000 barrels as a result of natural decline.

An analysis of the Company's 1967 production by fields is shown on page 10. While there were numerous price adjustments, both up and down, during the year, the average price received was $2.51 per barrel or approximately half a cent per barrel lower than the previous year.

Photographs Some of the Company's many activities are represented in the pictures above. (1) A pump jack pumping oil from 8,000′ at Turner Valley, Alberta. Other forms of artificial lift in this pool include gas lift, hydraulic and downhole electric pumps. (2) A typical high pressure water injection plant used in most of our secondary recovery projects. (3) Winter drilling can be rough – special protective shields guard against icy winds during operations on the rig floor. (4) Company investment in gas plants is on the increase – this plant is located in the Ghost Pine field, Alberta. (5) A pumper checks the level of oil in the tank.

Secondary Recovery

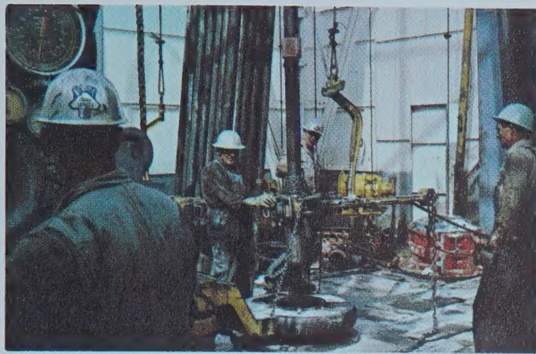
By the end of 1968, the Company will have interests in over 50 secondary recovery projects. Such projects generally consist of injecting water or gas into the producing formation in order to restore or maintain sufficient reservoir pressures to drive the oil to the well. Maximum recoveries of oil-in-place and improved production rates are the objectives of such schemes.

Of the 1967 oil production volume (1,478,000 net barrels), 49% was obtained from pools currently under secondary recovery or pressure maintenance operations; this percentage could reach 66% by the end of 1968 with institution of new waterfloods in pools now under study. Over 29% of the Company's production was obtained from fields which have an effective natural water drive or gas cap drive thus eliminating the necessity of extraneous energy to drive the oil to the well-bores.

Natural Gas

Net sales of natural gas from Decalta's properties increased by 8% to 1,342,000 Mcf during 1967. Deliveries from Rimbey, Simonette, Gilby and New Brunswick recorded gains. During 1968, sales from new properties in the Ghost Pine and Bittern Lake fields in Alberta, at Smiley in Saskatchewan and from the Consolidated West Petroleum properties in Ontario will substantially add to our revenues from gas.

Gas plant studies, leading to the construction of new plants at Simonette, Sturgeon Lake South and Malmo in Alberta are now in progress. Some of these plants should be completed by mid-1969.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Drilling Activity

The Company drilled 26 gross (8.6 net) development and exploratory wells during 1967. Results of the 1967 drilling compared with 1966 are shown in the table on the right.

Development drilling resulted in the following successful wells:

Canada	Type of Well	Producing Wells Gross	Net
Alberta			
Mitsue	Oil	3	.64
Ghost Pine	Gas	2	.25
Horsefly	Oil	1	.18
British Columbia			
Inga	Oil	2	.67
Saskatchewan			
Weyburn	Oil	1	1.00
Gull Lake	Oil	2	1.00
U.S.A.			
Montana	Oil	1	.40

Exploration drilling resulted in one Viking gas well at Smiley, Saskatchewan, which has recently commenced deliveries and one Mission Canyon oil well at Kisbey, Saskatchewan. Development drilling on the 480 acre Kisbey block has been deferred as the initial well produced at a relatively high water-cut.

Expenditures for exploring for and developing crude oil and natural gas during 1967 totalled $3,014,000 ($4,349,000 in 1966) as shown in the 5 year summary to the right.

The tabulation below shows the comparison between exploration and development expenditures over the past five years:

	Exploration	Development	Total
	(in thousands of dollars)		
1967	$1,031	1,983	3,014
1966	1,760	2,589	4,349
1965	1,392	2,750	4,142
1964	811	2,676	3,487
1963	919	1,489	2,408

WESTERN DECALTA PETROLEUM LIMITED

MAJOR EXPLORATION HOLDINGS

AREA	GROSS ACRES	NET ACRES	
1. Root River	29,119	29,119	R
2. Horn River	442,142	221,071	R
3. Cormack Lake	799,776	692,854	R
4. Pointed Mountain	155,772	155,772	R
5. Mills Lake	218,861	218,861	R
6. Bistcho Lake North	11,200	5,920	L
7. Shekilie	7,680	1,440	L
8. Wood Buffalo	234,240	117,120	R
9. Caribou Mountain	97,280	48,640	R
10. Fort Nelson West	14,857	14,857	L
11. Fort Nelson East	19,442	4,166	L
12. Beaverskin	13,467	672	DR
13. Biggar	100,000	100,000	R
14. Grainland	100,000	100,000	R
15. Cypress Hills	75,031	38,006	R & L
16. Assiniboia	99,297	24,824	R
17. Quill Lake	41,120	41,120	R
18. Melville	100,000	100,000	R
19. Big Boggy	431,824	277,143	R
20. Rocanville	50,800	50,800	R
21. Ferrybank	32,259	7,633	L
22. Cyn-Pem.	24,937	11,806	L
23. Obed	44,063	8,443	L
24. Simonette	114,099	20,345	L

L – Lease

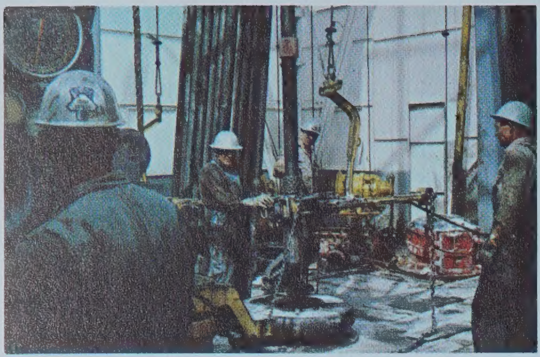
DR – Drilling Reservation

R – Crown Permit or Reservation convertible into Lease to the extent of approximately 50%.

LAND SUMMARY

Area	Gross Acreage	Net Acreage
Alberta	854,000	400,000
British Columbia	86,000	33,000
Hudson Bay	5,102,000	255,000
New Brunswick	5,453,000	5,453,000
Northwest Territories	1,976,000	1,648,000
Ontario	43,000	43,000
Saskatchewan	1,386,000	890,000
U.S.A.	19,000	9,000
	14,919,000	8,731,000

Exploration Areas in Western Canada ➧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WELLS DRILLED

	Gross Wells 1967	Gross Wells 1966	Net Wells 1967	Net Wells 1966
Development:				
Oil	10	47	3.9	22.8
Gas	2	2	.2	.4
Dry	1	10	.5	3.7
	13	59	4.6	26.9
Exploration:				
Oil	1	2	.5	.6
Gas	1	–	.5	–
Dry	11	13	3.0	3.2
	13	15	4.0	3.8
Total wells	26	74	8.6	30.7
Average Well Participation			33.1%	41.5%
Success Ratios:				
Development			89.1%	86.1%
Exploration			25.0%	15.9%

EXPENDITURES FOR FINDING AND DEVELOPING PRODUCTION

(in thousands of dollars)

	1967	1966	1965	1964	1963
Land and Rentals	$1,270	1,470	2,197	1,998	559
Geological and Geophysical	548	459	235	206	180
Non-Productive Drilling	301	355	427	200	296
Productive Drilling	492	1,678	999	788	956
Production Equipment	403	387	284	295	417
	$3,014	4,349	4,142	3,487	2,408

Reserves

A summary of Decalta's reserves at January 1, 1968 is shown below with comparative figures for the previous year. These reserve estimates have been calculated by an independent consultant.

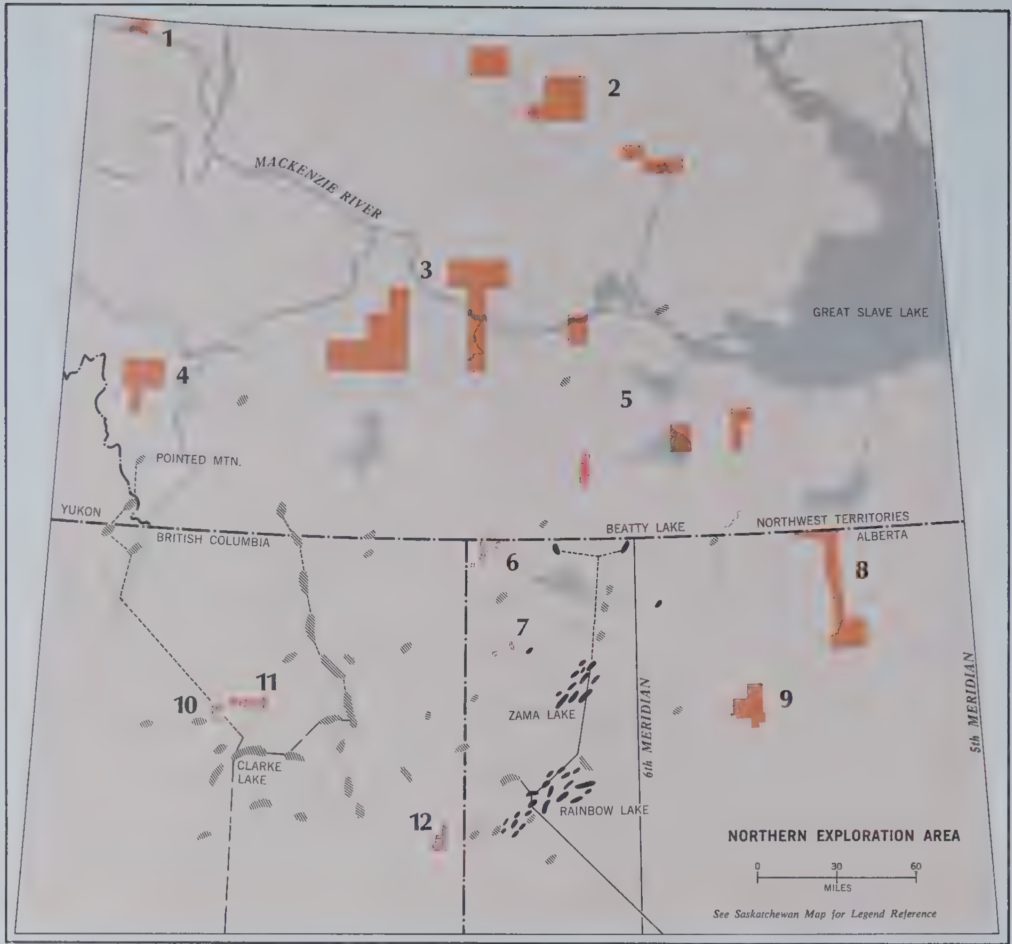
Proven and Probable Additional	January 1 1968	1967
Crude Oil Reserves (gross bbls)	34,721,000	34,103,000
Residue Natural Gas (gross mcf)	126,800,000	98,200,000
Sulphur (gross long tons)	301,000	305,000

Crude Oil and Condensate

Crude oil reserves, including condensate, totalled 34,721,000 gross barrels on January 1, 1968. After providing for minority interests in our subsidiary companies and the highest withdrawals in the Company's history (1,720,000 gross barrels), the increase amounted to 618,000 barrels. Development of properties at Mitsue, Alberta and at Weyburn and Gull Lake, Saskatchewan together with the purchase of reserves at Sturgeon Lake South in Alberta constituted the main additions to reserves during the year.

Natural Gas and Sulphur

Residue natural gas reserves showed a substantial gain (29.1%) during the year; at January 1, 1968 these reserves amounted to 126.8 billion gross cubic feet compared with 98.2 billion last year. The improvement resulted from the acquisition of interests in the Ghost Pine field and the development of Viking gas reserves at Obed, both in Alberta and a gas discovery at Coleville-Smiley in Saskatchewan.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POINTED MTN.
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NORTHERN EXPLORATION AREA
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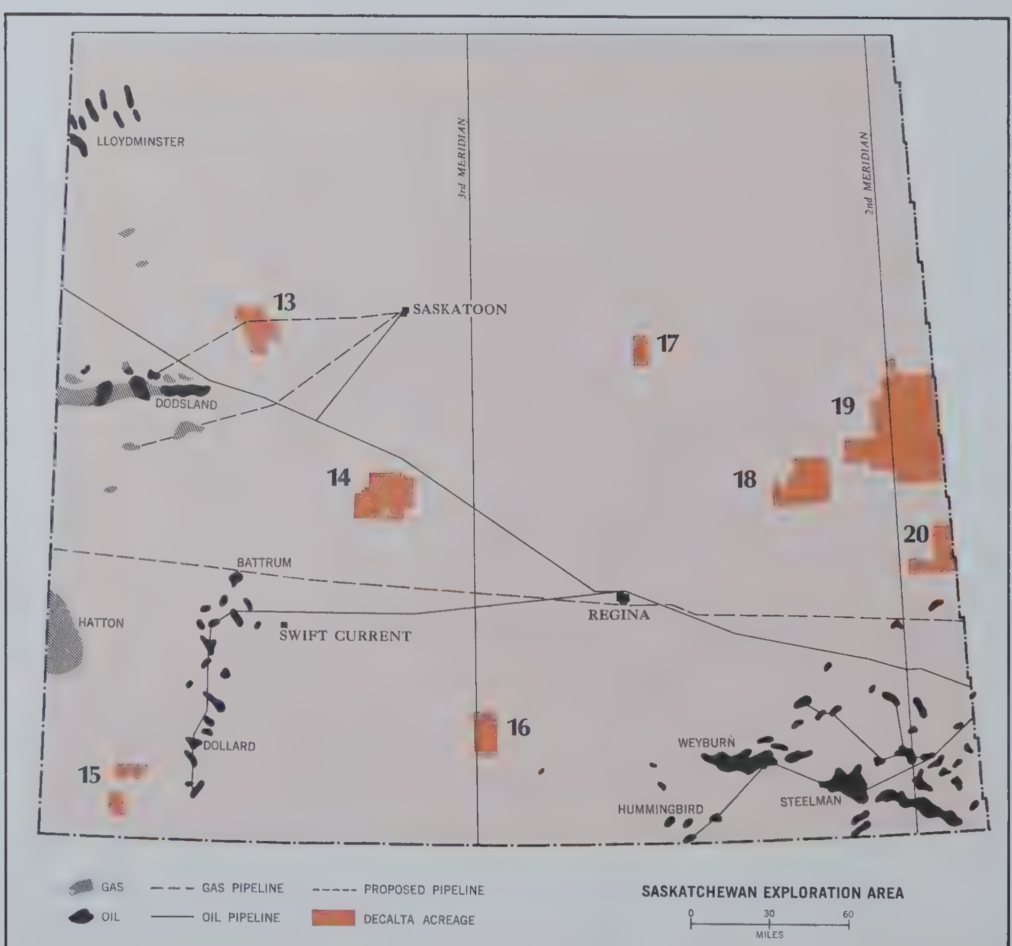
See Saskatchewan Map for Legend Reference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Areas of Major Interest

The Company is involved in a wide variety of prospects. A shareholder will however be primarily interested in those areas of endeavor which are most closely related to the exciting developments now taking place along the Muskeg-Keg River reef formation trends. The blocks of land shown on the accompanying exploration maps have been numbered for ready reference to the acreage tabulation on the fold-out. Status reports on some of the areas follow:

Beaverskin, British Columbia (map-12)

A well to the Keg River is currently being drilled by the Company on these lands. Decalta owns a 20% interest in the 13,500-acre drilling reservation which converts to 3,500 acres of lease. The well was spudded late in February and total depth should be reached toward the end of March.

Pointed Mountain, N.W.T. (map-4)

The Pointed Mountain block consists of 156,000 acres in which Decalta owns a 100% interest. The lands lie on the same anticlinal structure as that in which the PanAm Pointed Mountain P-53 gas discovery was made. This well is reported to have opened up 700 feet of pay. A second PanAm well, lying approximately 15 miles south of our land is now drilling. In 1969, Westcoast Transmission is scheduled to extend its gas pipeline northward from Fort Nelson to the gas reserves in the Pointed Mountain area.

Mills Lake-Tathlina-Hay River, N.W.T. (map-5)

Extensive drilling and seismic activities are being conducted by other companies in the general area of Decalta's properties. As indicated on the accompanying map Decalta owns a 100% interest in four land blocks totalling 220,000 reservation acres.

Cormack Lake, N.W.T. (map-3)

Decalta will be conducting a reconnaissance seismic survey on a portion of its lands in the Cormack Lake area. Decalta's interests in the lands involved, include 100% in 401,000 permit acres and 50% in 31,000 acres.

Caribou Mountain-Wood Buffalo, Alberta (map-8 and 9)

The Company's 97,000-acre tract at Caribou Mountain and approximately half of the 234,000-acre tract at Wood Buffalo has been farmed out to a major company which has undertaken to do at least $100,000 of seismic work this winter and to drill two wells next winter on each of the two properties. Investment in these projects by the major company will probably approach $1,000,000. As a result of this work being conducted by the major company, it will earn half of our interest in the blocks being evaluated.

Grainland, Saskatchewan (map-14)

A farm-out of Decalta's 100,000-acre tract at Grainland has been made. The farmee has undertaken to do $100,000 of work on this property to earn half of our interest.

Big Boggy, Saskatchewan (map-19)

A sum of $400,000 will be spent on these lands at no cost to Decalta. These funds will be spent within the next 18 months; seismic and gravity work is now being done and it is likely that three or four wells will be drilled in the near future. Decalta will own 33⅓% interest in these lands after the above expenditures.

Fort Nelson, British Columbia (map-10)

Your Company acquired a 100% interest in 14,800 lease acres in the Fort Nelson area of British Columbia. Since the Company had other lands in the general area (see map-11), the westerly acreage block was farmed out on an option basis. The option involves $100,000 in seismic work with the right to earn a 50% interest by drilling a basement test.

Simonette, Alberta

A successful westerly step-out to the D-3 field at Simonette early in 1968 will be of interest to shareholders. This development plus the forthcoming market for the Company's gas and sulphur reserves in this area, is discussed on page 20 of this report.

Land

The Land Summary tabulation on the fold-out shows the gross acreage held by the Company at December 31, 1967 as 14,919,000 acres (8,731,000 net acres); this compares with 12,479,000 gross (8,579,000 net) acres last year. The main acreage addition during the year was in the Hudson Bay area where Decalta acquired a 5% interest in 2,400,000 gross acres.

Financial

Gross Income

Gross income in 1967 amounted to $4,279,000 a 3% gain over 1966. The increase resulted primarily from the higher volumes of oil and gas sold during the year.

ANALYSIS OF GROSS INCOME

	1967	Change from 1966 Amount	%
Net Oil Sales	$3,705,000	+ 74,000	+ 2.0
Net Gas Sales	367,000	+ 36,000	+10.9
Royalty Revenue	94,000	+ 10,000	+11.9
Net Oil and Gas Sales	4,166,000	+120,000	+ 3.0
Interest and Other Income	113,000	+ 3,000	+ 2.7
Gross Income	$4,279,000	+123,000	+ 3.0

Expenses

Total cash expenses were $1,867,000 in 1967, an increase of 6% over 1966. Higher material prices, salaries and wages and interest charges were important factors contributing to the overall increase. The $20,000 reduction in net general and administrative expenses resulted from higher management fees earned. The $79,000 (4.9%) increase in depreciation and depletion write-offs resulted from the higher volume of sales and the Company's larger property accounts.

Net Income

Net income of Decalta and its consolidated subsidiaries in 1967 was $631,000 equivalent to 9c per share on the shares outstanding at the year end. Net income for 1966 was $709,000 equivalent to 10c per share.

Cash Flow

Cash flow from operations totalled $2,412,000 (35c per share) compared with $2,403,000 in 1966. The source and application of the funds available from operations and other sources in 1967 and 1966 are shown on opposite page.

Working Capital

Working capital at the year end totalled $1,645,000 ($365,000 in 1966). The sources of this increase are shown in the source and application of funds statement and Note 3 to the consolidated financial statements.

NET OIL & GAS SALES - 1967

	Net Oil & Condensate Production	%	Average Price p/bbl.	Oil & Condensate Sales	Natural Gas Sales	Royalty Income	Net Oil & Gas Sales
	(Thousands of barrels)			(Thousands of dollars)			
Alberta –							
Drumheller	170	11.5	$2.60	$ 442	$	$ 1	$ 443
Mitsue	117	7.9	2.65	309			309
Pembina (Cardium)	278	18.8	2.55	709	19		728
Pembina (Belly River)	75	5.1	2.53	191			191
Rimbey	35	2.4	2.84	98	163	33	294
Simonette	53	3.6	2.69	142	7		149
Sturgeon Lake	177	12.0	2.49	439	9		448
Turner Valley	55	3.7	2.60	144	14	4	162
Other	242	16.3	2.41	583	45	45	673
	1,202	81.3	$2.54	$3,057	$257	$83	$3,397
British Columbia	37	2.5	2.20	82			82
New Brunswick	12	0.8	2.77	32	85		117
Ontario					24		24
Saskatchewan	122	8.3	2.13	260		6	266
Canada	1,373	92.9		$3,431	$366	$89	$3,886
U.S.A.	105	7.1	2.61	274	1	5	280
Total 1967	1,478	100.0	$2.51	$3,705	$367	$94	$4,166
Total 1966	1,445	100.0	2.51	3,631	331	84	4,046
Increase	33		$ –	$ 74	$ 36	$10	$ 120

Consolidated Statement of Income

	FOR THE YEARS ENDED DECEMBER 31	
	1967	**1966**
Net oil and gas sales	**$ 4,166,080**	$ 4,045,795
Interest and other income	**48,933**	109,747
Profit on sale of shares of subsidiary	**63,981**	–
	4,278,994	4,155,542
Deduct:		
Production expenses	**1,020,784**	956,969
General and administrative expenses net of management fees earned	**167,931**	187,905
Interest expense	**678,161**	607,607
	1,866,876	1,752,481
Cash flow from operations	**2,412,118**	2,403,061
Depreciation and depletion	**1,688,552**	1,609,478
Income before minority interest	**723,566**	793,583
Income applicable to minority interest	**92,857**	84,988
Net income for the year (Note 7)	**$ 630,709**	$ 708,595

Consolidated Statement of Source and Application of Funds

	FOR THE YEARS ENDED DECEMBER 31	
	1967	**1966**
Source of funds:		
Cash flow from operations	**$ 2,412,118**	$ 2,403,061
Sale of production payments	**2,000,000**	–
Increase in production bank loans	**500,000**	500,000
Issue of capital stock	**56,750**	66,250
Other	**30,352**	–
	4,999,220	2,969,311
Application of funds:		
Additions to property and equipment – net	**3,039,836**	4,434,466
Repayment of bonds and debentures	**597,469**	502,248
Retirement of production payments	**51,099**	–
Investment in shares of subsidiaries	**819**	2,476
Other	**29,162**	146,775
	3,718,385	5,085,965
Increase or (decrease) in working capital	**$ 1,280,835**	$ (2,116,654)

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheet

	AS AT DECEMBER 31	
ASSETS	**1967**	**1966**
CURRENT:		
Cash	**$ 300,909**	$ 464,296
Short term investments at cost which approximates market	**1,780,490**	86,984
Accounts receivable	**1,558,490**	1,607,934
Inventory of materials at cost	**151,172**	161,211
Prepaid expenses	**10,983**	9,934
	3,802,044	2,330,359
REFUNDABLE DEPOSITS	**203,874**	166,587
PROPERTY AND EQUIPMENT AT COST:		
Oil and gas properties less accumulated depletion of $13,087,604 (1966 – $11,956,123)	**21,376,675**	20,165,358
Plant and equipment less accumulated depreciation of $3,494,346 (1966 – $3,289,483)	**1,855,344**	1,800,313
	23,232,019	21,965,671
OTHER:		
Sundry investments at cost	**49,817**	57,946
	$27,287,754	$24,520,563
LIABILITIES		
CURRENT:		
Banker's acceptances – secured	**$ 700,000**	$ 300,000
Accounts payable and accrued charges	**1,219,810**	1,528,460
Accrued interest on long term debt	**36,750**	37,250
Current maturities of long term debt	**200,000**	100,000
	2,156,560	1,965,710
DEFERRED PRODUCTION INCOME (Note 3)	**1,948,901**	–
LONG TERM DEBT (Note 4)	**9,614,558**	9,723,397
MINORITY INTEREST IN SUBSIDIARY COMPANIES	**1,650,845**	1,613,395
SHAREHOLDERS' EQUITY (Note 5):		
Capital (Note 6) –		
Authorized – 10,000,000 shares of $1 each par value		
Issued – 6,866,683 shares (1966 – 6,828,183 shares)	**6,866,683**	6,828,183
Contributed surplus (see statement page 13)	**4,012,422**	3,994,172
Earned surplus (see statement page 13)	**1,037,785**	395,706
	11,916,890	11,218,061
	$27,287,754	$24,520,563

On behalf of the Board:

[signature], Director

[signature], Director

See accompanying notes to consolidated financial statements.

Consolidated Statement of Earned Surplus

	FOR THE YEARS ENDED DECEMBER 31	
	1967	1966
Earned surplus (deficit) at beginning of year	$ 395,706	$ (318,499)
Net income for the year (see statement page 11)	630,709	708,595
Discount on debentures purchased for cancellation	11,370	5,610
Earned surplus at end of year	$ 1,037,785	$ 395,706

Consolidated Statement of Contributed Surplus

	FOR THE YEARS ENDED DECEMBER 31	
	1967	1966
Balance at beginning of year	$ 3,994,172	$ 3,988,422
Add premium on shares issued during year	18,250	5,750
Balance at end of year	$ 4,012,422	$ 3,994,172

Notes to Consolidated Financial Statements

DECEMBER 31, 1967

1. BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and all its subsidiaries. The Company sold its interest in one subsidiary during the year and realized a profit of $63,981.

The excess or deficiency of the cost of shares of subsidiaries over the net book value of the related assets at dates of acquisition is included in oil and gas properties or credited to accumulated depletion of oil and gas properties as the case may be.

2. ACCOUNTING PRACTICE

The companies follow the full-cost method of accounting wherein all costs relative to the exploration for and the development of oil and gas reserves, whether productive or non-productive, are capitalized and depleted on the composite unit of production method based on estimated proven reserves of oil and gas. Depreciation of plant and equipment is provided at rates which are designed to amortize cost over the estimated useful life of these assets.

3. DEFERRED PRODUCTION INCOME

During the year production payments, representing a portion of the companies' interests in future production from certain oil lands, were sold for $2,000,000 cash. Income resulting from the sales has been deferred and will be reflected in income as the oil is produced and sold. It is expected that the production payments will be retired within three years.

4. LONG TERM DEBT

	1967	1966
Production bank loans	$ 1,000,000	$ 500,000
6¾% Secured Production Loan Bonds due March 1, 1978	1,464,558	1,873,397
6% Sinking Fund Debentures Series A due June 1, 1985	7,350,000	7,450,000
	9,814,558	9,823,397
Deduct:		
Sinking fund instalments on Series A Debentures due within one year	200,000	100,000
Per balance sheet	$ 9,614,558	$ 9,723,397

The production bank loans (evidenced by demand notes) and the 6¾% Production Loan Bonds are secured by assignment of the Company's interest in certain oil and gas producing properties and are repayable out of the proceeds of production from such properties. The Company expects that repayments on its production loan indebtedness will amount to approximately $600,000 annually in 1968 and subsequent years. The 6% Sinking Fund Debentures Series A are secured by a first floating charge on the undertaking, property and assets of the Company and are subject to sinking fund payments of $250,000 in 1969 and annual amounts of $400,000 thereafter until 1984.

5. DIVIDENDS

The trust deed securing the 6% Sinking Fund Debentures Series A contains provisions restricting the payment of cash dividends, the most restrictive of which limits such payments to consolidated net earnings (as defined) in excess of 3½ times interest on the Company's long term debt.

6. CAPITAL AND RESERVATION OF SHARES

At December 31, 1967, 145,000 shares of the Company's capital stock were reserved for options granted to officers (of whom two are directors) and 62,500 shares were reserved for options granted to other employees. The options are exercisable at a price of $3 per share from time to time until 1973. During the year 38,500 shares were issued on the exercise of options for $56,750 cash of which $38,500 was credited to share capital and the balance to contributed surplus.

An additional 375,000 shares are reserved for the exercise of share purchase warrants at $4.75 per share on or before June 1, 1970.

7. INCOME TAXES

Under Canadian income tax law, exploration and development expenditures including property acquisition costs may be deducted from income or, if such expenditures exceed the income for the year, the excess may be carried forward to subsequent years. No provision for taxes on income was required for the year ended December 31, 1967 and at that date an excess of such expenditures of approximately $7,000,000 was available to be carried forward against future taxable income.

8. SUBSEQUENT EVENT

As at February 16, 1968 the Company had acquired 751,064 shares (representing a 56.5% interest) of Consolidated West Petroleum Limited at a cost of $1,828,840. On February 21, 1968 the Company offered to purchase all the remaining shares at $2.435 per share.

9. STATUTORY INFORMATION

Included in charges against income during the 1967 year are the following:

Remuneration of directors including directors who are officers		$ 66,600
Remuneration of directors and senior officers		122,782
Interest on funded debt		620,101
Depreciation and depletion –		
Depreciation of plant and equipment	$ 416,960	
Depletion of oil and gas properties	1,271,592	1,688,552

Auditors' Report

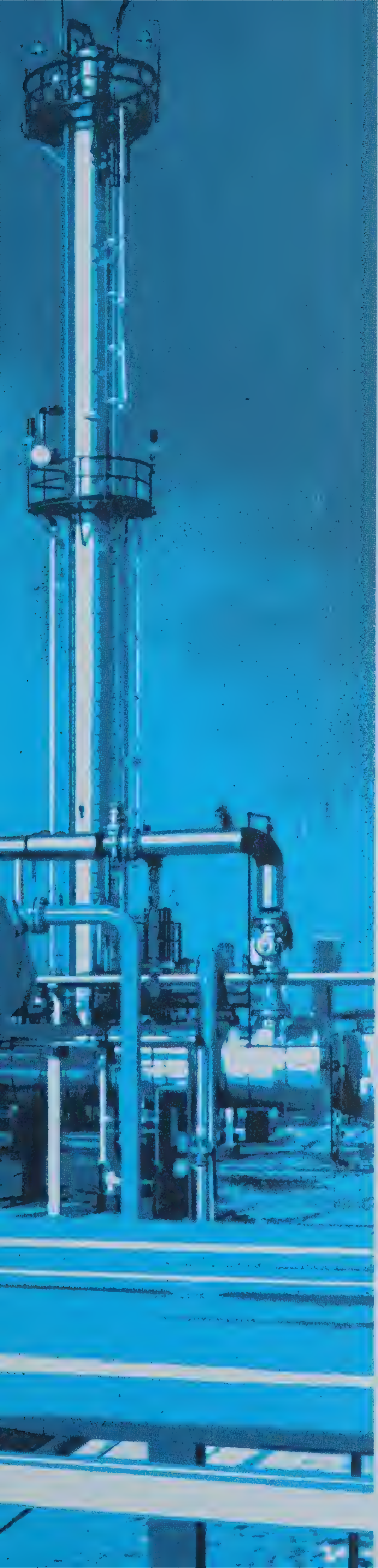
To the Shareholders of
WESTERN DECALTA PETROLEUM LIMITED

We have examined the consolidated balance sheet of Western Decalta Petroleum Limited and its subsidiary companies as at December 31, 1967 and the consolidated statements of income, earned surplus, contributed surplus and source and application of funds for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of Western Decalta Petroleum Limited and its subsidiary companies at December 31, 1967, the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta
February 28, 1968.

CLARKSON, GORDON & CO.
Chartered Accountants.



WESTERN DECALTA PETROLEUM LIMITED

Directors

CHARLES S. LEE, Calgary, Alberta
President of the Company
President of The Petrol Oil & Gas Company, Limited
Director of Consolidated West Petroleum Limited

ALASTAIR H. ROSS, Calgary, Alberta
Vice-President and General Manager of the Company
Vice-President of The Petrol Oil & Gas Company, Limited
President of Consolidated West Petroleum Limited

ALAN T. CHRISTIE, Scarsdale, New York
Private Investments

JOHN M. COYNE, Q.C., Ottawa, Ontario
Partner of Herridge, Tolmie, Gray, Coyne & Blair – Barristers and Solicitors

CHARLES B. FORGAN, London, England
Director of Selection Trust Limited

RALPH C. C. HENSON, Toronto, Ontario
Director of Standard Securities Limited

N. K. KINKEAD-WEEKES, London, England
Director and Manager of Chartered Consolidated Limited
Alternate Director and Manager of Anglo American Corporation of South Africa, Limited
Director of Interlink Investments Limited

F. RICHARD MATTHEWS, Q.C., Calgary, Alberta
Partner of MacKimmie, Matthews, Wood, Phillips and Smith – Barristers and Solicitors

T. MUIR WARDEN, O.B.E., London, England
Retired Executive

MAURICE W. RUSH, Toronto, Ontario
President of Anglo-American Corporation of Canada Limited
Chairman of the Board of Hudson Bay Mining and Smelting Co. Limited
Director of Interlink Investments Limited

Officers

C. S. Lee, President

A. H. Ross, Vice-President

L. G. Elhatton, Secretary-Treasurer

Operating and Administrative Management

E. L. Morris, Manager Production and Development

A. M. Patterson, Exploration Manager

R. A. Robinson, Comptroller

F. L. Woolley, Land Manager

Corporate

REGISTRAR AND TRANSFER AGENTS FOR SHARES

Crown Trust Company –
Calgary, Toronto, Montreal, Vancouver

REGISTRAR AND TRANSFER AGENTS FOR DEBENTURES

Guaranty Trust Company of Canada –
Calgary, Toronto, Montreal, Vancouver

BANKERS

The Royal Bank of Canada – Calgary, Alberta

AUDITORS

Clarkson, Gordon & Co. – Calgary, Alberta

SOLICITORS

Messrs. MacKimmie, Matthews, Wood,
Phillips and Smith – Calgary, Alberta

SHARES LISTED

Toronto and Calgary Stock Exchanges

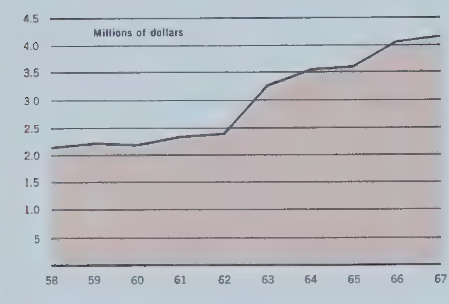
SUBSIDIARY COMPANIES

Albermont Petroleums Incorporated
Decalta Oil Enterprises, Inc.
Decalta Oil Developments Ltd.
Merchants Oil Co. Ltd.
New Brunswick Oilfields, Limited
South Brazeau Petroleums Limited
The Petrol Oil & Gas Company, Limited

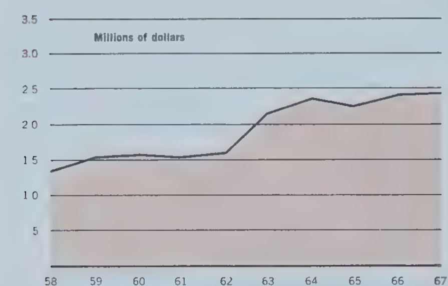
HEAD OFFICE

8th Floor, 630 Sixth Avenue S.W.
Calgary 1, Alberta

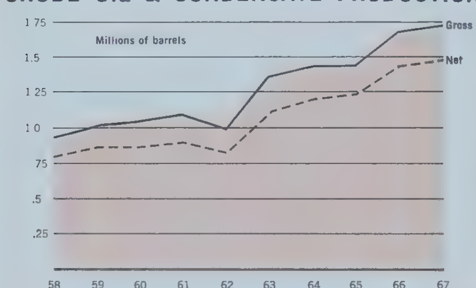
NET OIL & GAS SALES



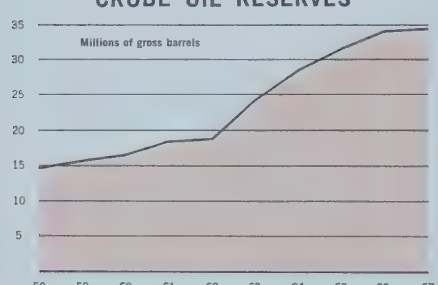
CASH FLOW



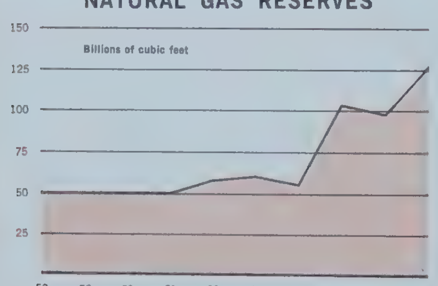
CRUDE OIL & CONDENSATE PRODUCTION



CRUDE OIL RESERVES



NATURAL GAS RESERVES



10 YEAR REVIEW

FINANCIAL (Note 1)	1967	1966
Income		
Net oil and gas sales	**$ 4,166,000**	$ 4,046,0
Interest and other income	**113,000**	110,0
Gross income	**4,279,000**	4,156,0
Production, administrative and interest expenses	**1,867,000**	1,753,0
Cash flow	**2,412,000**	2,403,0
Per share	**0.35**	0.
Depreciation and depletion	**1,688,000**	1,609,0
Minority interests	**93,000**	85,0
Net income (loss) (2)	**631,000**	709,0
Per share	**0.09**	0.
FINANCIAL POSITION		
Working capital	**1,645,000**	365,0
Property, plant and equipment – net	**23,232,000**	21,966,0
Long term debt	**9,615,000**	9,723,0
Deferred production income	**1,949,000**	
Shareholders' equity	**11,917,000**	11,218,0
Cost of Finding and Developing Reserves		
Exploration expenditures	**1,031,000**	1,760,0
Development expenditures	**1,983,000**	2,589,0
Totals	**3,014,000**	4,349,0
OPERATING		
Oil Production		
Annual – gross barrels	**1,720,000**	1,683,0
net barrels	**1,478,000**	1,445,0
Daily average – net barrels	**4,049**	3,9
Natural Gas Sales		
Annual – gross mcf	**1,552,000**	1,429,0
net mcf	**1,342,000**	1,242,0
Daily average – net cu. ft.	**3,677,000**	3,403,0
Reserves (3)		
Oil – gross barrels	**34,721,000**	34,103,0
Gas – gross mcf	**126,800,000**	98,200,0
Sulphur – long tons	**301,000**	305,0
Drilling Activity		
Gross wells completed	**26**	
Net wells completed	**9**	
Net productive wells	**5**	
Net dry holes	**4**	
Land Holdings		
Gross acres	**14,919,000**	12,479,0
Net acres	**8,731,000**	8,579,0
Employees and Shareholders		
Number of employees	**71**	
Number of shareholders	**4,698**	4,9
Shares outstanding	**6,866,683**	6,828,1

(1) The above statistics are for Western Decalta Petroleum Limited and its subsidiary compa
(2) Full-cost method of accounting for exploration and development expenditures was ado

965	1964	1963	1962	1961	1960	1959	1958
05,000	$ 3,538,000	$ 3,268,000	$ 2,400,000	$ 2,325,000	$ 2,194,000	$ 2,179,000	$ 2,134,000
55,000	115,000	113,000	87,000	58,000	97,000	46,000	52,000
60,000	3,653,000	3,381,000	2,487,000	2,383,000	2,291,000	2,225,000	2,186,000
06,000	1,281,000	1,244,000	897,000	860,000	725,000	701,000	827,000
54,000	2,372,000	2,137,000	1,590,000	1,523,000	1,566,000	1,524,000	1,359,000
0.33	0.36	0.32	0.24	0.23	0.24	0.24	0.21
39,000	1,349,000		see note (2)				
93,000	125,000						
22,000	898,000	227,000	145,000	(74,000)	(289,000)	(404,000)	(377,000)
0.12	0.14		see note (2)				
81,000	508,000	949,000	819,000	387,000	491,000	586,000	1,254,000
42,000	16,295,000	13,998,000	10,893,000	10,890,000	11,687,000	11,791,000	11,944,000
31,000	5,730,000	4,914,000	4,381,000	2,979,000	3,881,000	3,895,000	4,432,000
38,000	9,711,000	8,796,000	8,565,000	8,413,000	8,459,000	8,580,000	8,949,000
92,000	811,000	919,000	480,000	407,000	488,000	693,000	733,000
50,000	2,676,000	1,489,000	582,000	374,000	1,181,000	1,036,000	1,362,000
42,000	3,487,000	2,408,000	1,062,000	781,000	1,669,000	1,729,000	2,095,000
46,000	1,440,000	1,362,000	997,000	1,091,000	1,049,000	1,015,000	932,000
44,000	1,213,000	1,122,000	825,000	897,000	874,000	870,000	802,000
3,408	3,314	3,074	2,260	2,458	2,388	2,384	2,197
66,000	1,557,000	1,225,000	915,000	502,000			
63,000	1,358,000	1,062,000	817,000	460,000			
34,000	3,710,000	2,910,000	2,238,000	1,260,000			
14,000	28,628,000	24,176,000	18,956,000	18,300,000	16,500,000	15,708,000	14,975,000
00,000	55,800,000	61,500,000	58,500,000	50,000,000	50,000,000	50,000,000	50,000,000
22,000							
74	35	45	15	14	18	26	39
24	17	18	4	4	6	12	15
12	12	11	2	1	3	9	13
12	5	7	2	3	3	3	2
072,000	7,440,000	7,596,000	7,579,000	2,544,000	3,192,000	2,978,000	2,630,000
54,000	7,129,000	7,166,000	7,216,000	1,424,000	1,651,000	1,261,000	953,000
71	71	69	71	60	63	66	54
4,702	4,144	3,993	4,145	4,188	4,433	4,414	4,345
767,683	6,581,603	6,569,603	6,569,603	6,569,603	6,569,603	6,453,758	6,445,739

ember 31.
4.

(3) Includes proven and probable additional reserves, excluding minority interests in subsidiary companies. Reserves have been calculated by an independent consultant.

DECALTA'S INTERESTS IN SUBSIDIARIES

COMPANIES	DECALTA'S INTEREST	INCORPORATED UNDER THE LAWS OF	AREAS OF OPERATIONS
ALBERMONT PETROLEUMS INCORPORATED .	100.0%	Montana	Montana and Texas
DECALTA OIL DEVELOPMENTS LTD.	100.0%	Canada	Western Canada
DECALTA OIL ENTERPRISES, INC.	100.0%	Montana	Montana and Western Canada
MERCHANTS OIL CO. LTD.	100.0%	Alberta	Alberta
NEW BRUNSWICK OILFIELDS, LIMITED	82.0%	New Brunswick	New Brunswick and Western Canada
SOUTH BRAZEAU PETROLEUMS LIMITED	62.6%	Alberta	Alberta
THE PETROL OIL & GAS COMPANY, LIMITED	50.1%	Ontario	Ontario and Western Canada
THE PETROL OIL & GAS CORPORATION	*	Delaware	Texas and Oklahoma
PETROL MINERAL ENTERPRISES LTD.	*	Alberta	Alberta

All of Western Decalta's subsidiary companies are engaged in oil and gas exploration and production in the areas designated.

* Wholly-owned subsidiaries of The Petrol Oil & Gas Company, Limited.

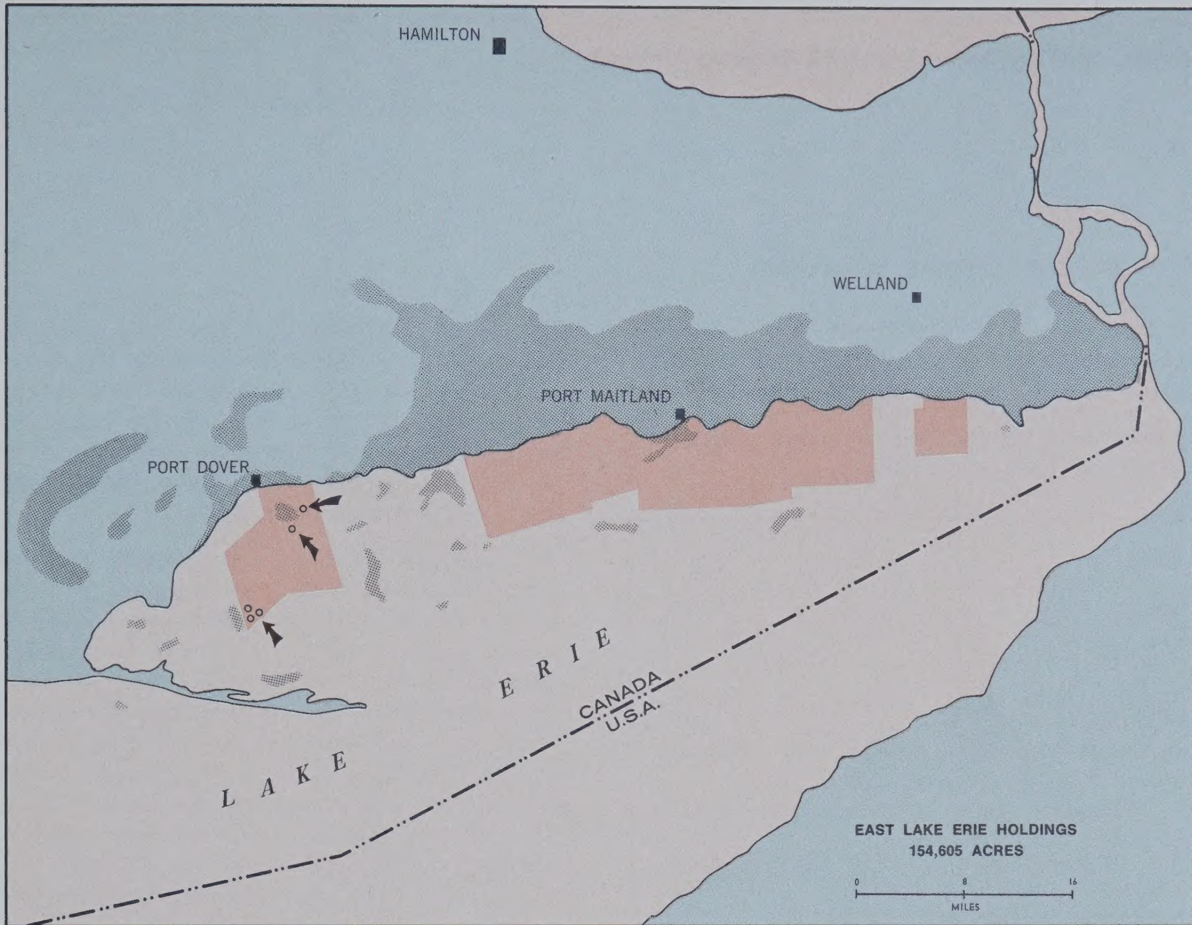
During 1968, Western Decalta acquired over 92% of the outstanding shares of Consolidated West Petroleum Limited, an Ontario corporation engaged in oil and gas operations in Ontario.

Consolidated West Petroleum Limited

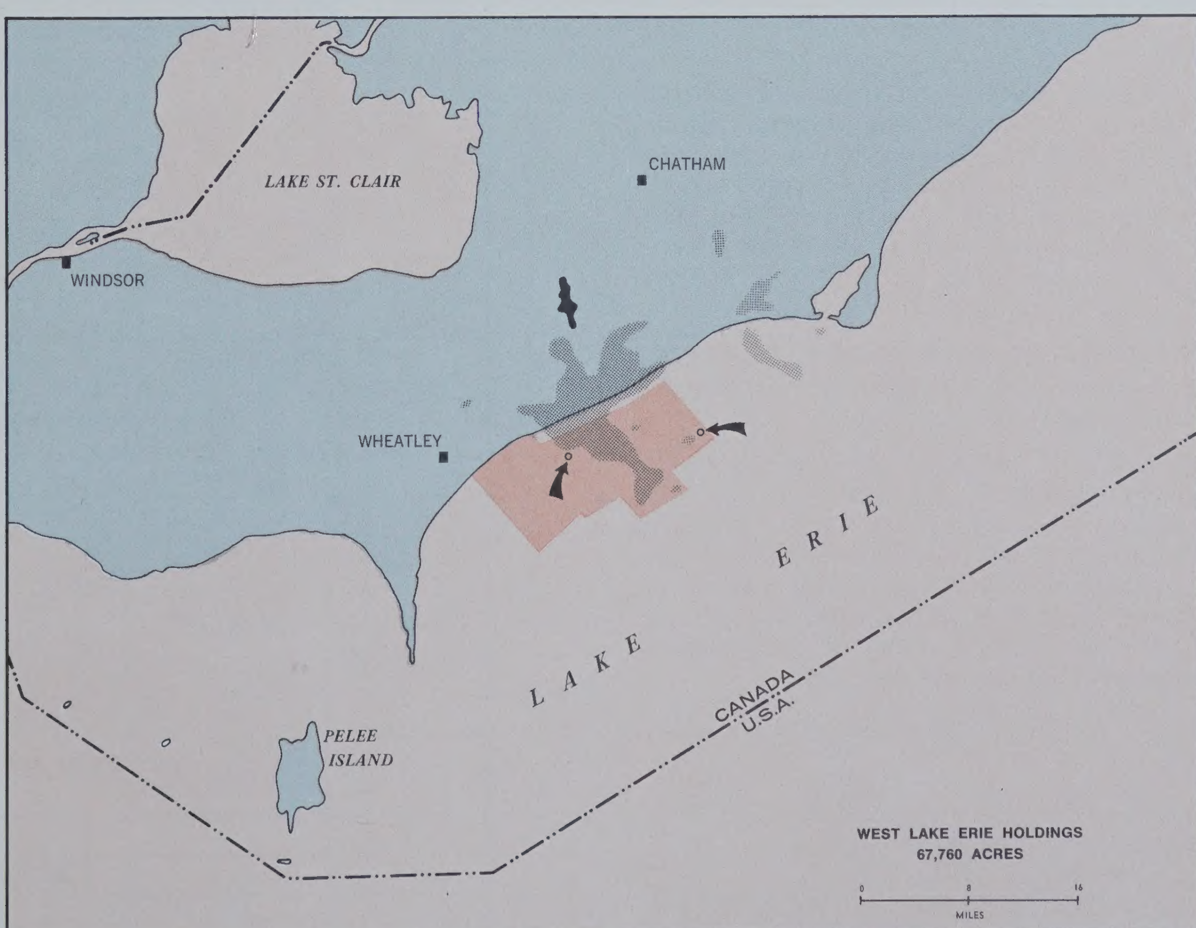
Early in 1968, Western Decalta acquired 1,234,256 shares or 92.86% of the total outstanding shares of Consolidated West Petroleum Limited. An offer was made to all Consolidated West shareholders to purchase their shares at $2.435 per share; this offer expired on March 15, 1968.

Consolidated West's main source of revenue is from the sale of gas in the Lake Erie area of Ontario. When this company's financial and operating results are consolidated with those of Western Decalta for a full year, Decalta's gross income is expected to increase from this source by approximately $800,000 and cash flow by $525,000. Decalta's consolidated figures in 1968 will include 10 months of Consolidated West's operations.

Consolidated West holds leases covering 222,000 acres underlying Lake Erie as shown on the two maps on the opposite page. Seven offshore locations have been picked for wells which are to be drilled this summer. As there is a continuing and growing demand for natural gas in this area, a successful exploration program on the undeveloped leases will benefit both Consolidated West and Decalta materially.



GAS FIELD OIL FIELD o LOCATION



The Petrol Oil & Gas Company, Limited

Western Decalta owns 50.08% of the 3,995,000 total outstanding shares of Petrol and provides managerial services for that company.

Comparative statistics covering Petrol's operations during 1967 and 1966 are shown below:

	1967	1966
Financial:		
Gross Income	$570,000	$571,000
Cash Flow	336,000	335,000
Per Share	.084	.084
Net Income	164,000	156,000
Per Share	.041	.039
Working Capital	$243,000	$216,000
Operations:		
Production –		
Oil (net barrels)	201,000	205,000
Gas (net mcf)	85,000	27,000
Proven and Probable Reserves –		
Oil (gross barrels)	8,807,000	8,805,000
Gas (gross mcf)	18,300,000	4,900,000

Simonette

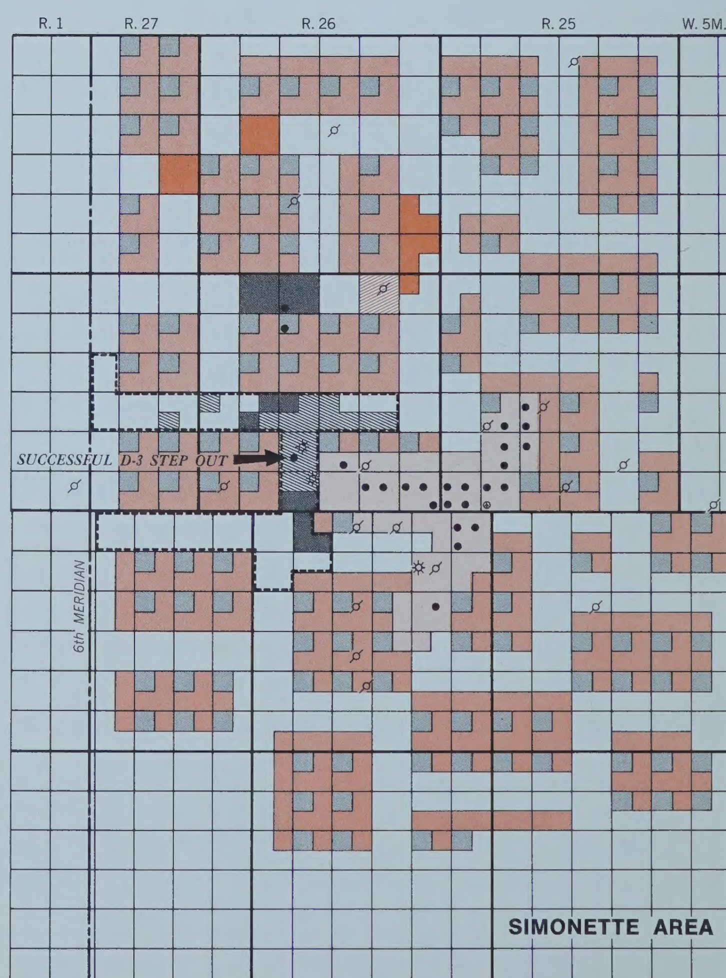
Apart from participating with Western Decalta in the ownership of many of the exploration land blocks shown on the maps on page 8 of this report, Petrol has varying interests in the substantial acreage block at Simonette. Only a portion of these lands has been evaluated, but to date, oil and gas reserves have been proven in the D-1 and D-3 and gas reserves in the Cadomin and Dunvegan sands.

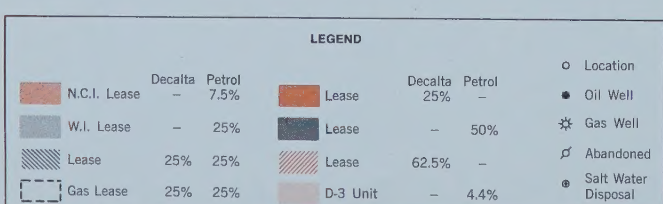
It is expected that Petrol's revenues from this field will increase materially over the next few years for the following reasons:

(1) A gas plant to process gas reserves from the D-1 and D-3 formations is expected to be completed during 1969 together with the necessary transmission lines. Considerable sulphur and condensate revenues will accrue from this venture. As the reserves from the Cadomin formation are "sweet", this gas may or may not be processed prior to entering the delivery line.

(2) Upon the operator reaching pay-out during 1969, Petrol's interest in the three quarters of each section, shown on the map as N.C.I. Lease Lands, will increase from a 2% royalty to a 7½% net profits interest. At the same time, Petrol's interest in the D-3 unit will increase to an equivalent 8.4% from the present 4.4%.

(3) Early in 1968, Petrol, Decalta and associates farmed out 640 acres approximately one mile west of the closest D-3 producer (see map). The well found the top of the D-3 approximately 90 feet above the water-oil contact in the main pool. Production tests are now awaiting the end of Spring road bans in order that the oil may be sold. The farmee has now earned an interest in 320 acres and has the option to earn an interest in the other 320 acres by drilling a further well. Until pay-out of 150% of the farmee's costs, Decalta and Petrol will share a 10% interest in the well and thereafter, a 40% interest.





THE *PETROL* OIL & GAS COMPANY LIMITED
(No personal liability)
AND ITS SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEET

DECEMBER 31, 1967 AND 1966

ASSETS

	1967	1966
CURRENT:		
Cash	**$ 34,348**	$ 90,700
Accounts receivable	**29,807**	33,982
Due from affiliated company	**200,000**	120,000
Prepaid expense	**1,444**	626
	265,599	245,308
REFUNDABLE DEPOSITS	**1,469**	1,469
PROPERTY AND EQUIPMENT AT COST:		
Oil and gas properties less accumulated depletion of $1,705,222 (1966—$1,602,503)	**2,874,630**	2,789,940
Plant and equipment less accumulated depreciation of $712,217 (1966—$646,411)	**271,025**	299,176
	3,145,655	3,089,116
OTHER:		
Sundry investments at cost	**796**	796
	$3,413,519	$3,336,689

LIABILITIES

	1967	1966
CURRENT:		
Accounts payable and accrued charges	**$ 19,811**	$ 16,142
Due to parent company	**2,571**	13,253
	22,382	29,395
NOTES PAYABLE TO PARENT COMPANY		575,000
DEFERRED PRODUCTION INCOME (Note 3)	**494,806**	
SHAREHOLDERS' EQUITY:		
Capital— Authorized—8,000,000 shares of no par value		
Issued—3,995,000 shares	**2,743,500**	2,743,500
Earned surplus (deficit) (Page 8)	**152,831**	(11,206)
	2,896,331	2,732,294
	$3,413,519	$3,336,689

On behalf of the Board:

Director

Director

See accompanying notes to financial statements.

Auditors' Report

TO THE SHAREHOLDERS OF
THE PETROL OIL & GAS COMPANY, LIMITED

We have examined the consolidated balance sheet of The Petrol Oil & Gas Company, Limited and its subsidiary companies as at December 31, 1967 and the consolidated statements of income, earned surplus and source and application of funds for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of The Petrol Oil & Gas Company, Limited and its subsidiary companies at December 31, 1967 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta.
February 28, 1968.

CLARKSON, GORDON & CO.,
Chartered Accountants

THE PETROL OIL & GAS COMPANY, LIMITED
(No personal liability)
AND ITS SUBSIDIARY COMPANIES

Consolidated Statement of Income

FOR THE YEARS ENDED DECEMBER 31, 1967 AND 1966

	1967	1966
Net oil and gas sales	**$ 560,758**	$ 562,355
Interest and other income	**9,036**	8,381
	569,794	570,736
Deduct:		
Production expenses	**161,438**	166,152
General and administrative expenses	**42,344**	40,379
Interest expense	**30,096**	29,513
	233,878	236,044
Cash flow from operations	**335,916**	334,692
Depreciation and depletion	**171,879**	179,175
Net income for the year (See notes)	**$ 164,037**	$ 155,517

Consolidated Statement of Earned Surplus

FOR THE YEARS ENDED DECEMBER 31, 1967 AND 1966

	1967	1966
Balance of deficit at beginning of year	**$ 11,206**	$ 166,723
Net income for the year	**164,037**	155,517
Balance of earned surplus (deficit) at end of year	**$ 152,831**	$ (11,206)

See accompanying notes to financial statements.

Consolidated Statement of Source and Application of Funds

FOR THE YEARS ENDED DECEMBER 31, 1967 AND 1966

	1967	1966
Source of funds:		
Cash flow from operations	**$ 335,916**	$ 334,692
Sale of production payments	**512,000**	
Loan from parent company		150,000
Other		93
	847,916	484,785
Application of funds:		
Additions to property and equipment	**228,418**	462,353
Repayment of loan from parent company	**575,000**	
Retirement of production payments	**17,194**	
	820,612	462,353
Increase in working capital	**$ 27,304**	$ 22,432

See accompanying notes to financial statements.

Notes to Consolidated Financial Statements

DECEMBER 31, 1967

1. BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and all its subsidiaries. The accounts of a subsidiary company operating in the United States are, for purposes of consolidation, included on the basis of $1 U.S. equals $1 Canadian. Net assets so converted amounted to $248,263.

2. ACCOUNTING PRACTICE

The companies follow the full-cost method of accounting wherein all costs relative to the exploration for and the development of oil and gas reserves, whether productive or non-productive, are capitalized and depleted on the composite unit of production method based on estimated proven reserves of oil and gas. Depreciation of plant and equipment is provided at rates which are designed to amortize cost over the estimated useful life of these assets.

3. DEFERRED PRODUCTION INCOME

During the year production payments, representing a portion of the Company's interests in future production from certain oil lands, were sold for $512,000 cash. Income resulting from the sales has been deferred and will be reflected in income as the oil is produced and sold. It is expected that the production payments will be retired within three years.

4. INCOME TAXES

Under Canadian income tax law, exploration and development expenditures including property acquisition costs may be deducted from income or, if such expenditures exceed the income for the year, the excess may be carried forward to subsequent years. No provision for income taxes was required for the year ended December 31, 1967 and at that date an excess of such expenditures (approximately $1,135,000) was available to be carried forward against future taxable income.

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